

**State of Michigan  
22nd Judicial District Court  
Financial Report  
With Supplemental Information  
June 30, 2007**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name State of Michigan 22nd Judicial District Court	County Wayne
Fiscal Year End June 30, 2007	Opinion Date October 31, 2007	Date Audit Report Submitted to State November 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

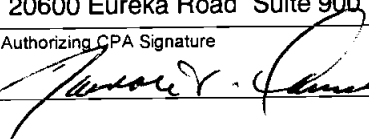
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Darnell & Meyering, PC		Telephone Number 734-246-9240	
Street Address 20600 Eureka Road Suite 900		City Taylor	State Zip MI 48180
Authorizing CPA Signature 		Printed Name Randall H. Darnell	License Number 13139

**State of Michigan  
22nd Judicial District Court  
Financial Report  
June 30, 2007**

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# DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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## **Independent Auditor's Report**

To the Honorable Sylvia A James,  
State of Michigan 22<sup>nd</sup> Judicial District Court  
Inkster, MI

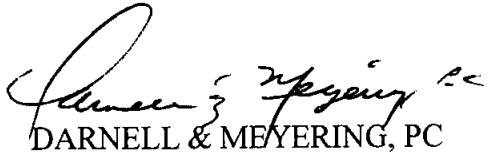
We have audited the accompanying financial statements of the Community Service Fund, and the fiduciary fund information of State of Michigan 22<sup>nd</sup> Judicial District Court, which collectively comprise the Court's basic financial statements as of and for the year ended June 30, 2007. These financial statements are the responsibility of the State of Michigan 22<sup>nd</sup> Judicial District Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Community Service Fund, and the fiduciary fund information of State of Michigan 22<sup>nd</sup> Judicial District Court and the respective changes in financial position thereof for the year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Court's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statement. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.



DARNELL & MEYERING, PC

October 31, 2007

**22nd District Court**  
**Governmental Fund Balance Sheet/Statement of Net Assets**  
**June 30, 2007**

	Community Service Fund - Modified and Full Accrual Basis
Assets:	
Cash	\$ 53,437
Total Assets	<u>\$ 53,437</u>
Liabilities and Fund Balances/Net Assets:	
Due to Bond Fund	\$ 5,756
Total Liabilities	<u>\$ 5,756</u>
Fund Balance/Net Assets	
Unreserved, Undesignated/Unrestricted	<u>47,681</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 53,437</u>

The notes to the financial statements are an integral part of this statement.

**22nd District Court**  
**Statement of Governmental Revenue, Expenditures, and Changes**  
**in Fund Balance/Statement of Activities**  
**Year Ended June 30, 2007**

	Community Service Fund - Modified and Full Accrual Basis
Revenues:	
Revenue from Defendants	\$ 31,601
Total Revenues	<u>31,601</u>
Expenditures:	
Professional/Consultant	21,485
Donations/Contributions	2,177
Building Maintenance	792
Equipment Maintenance	345
Office Supplies	179
Clothing Allowance	94
Total Expenditures	<u>25,072</u>
Net Change in Fund Balance	6,529
Fund Balance	
Beginning of Year	41,152
End of Year	<u><u>\$ 47,681</u></u>

**22nd District Court  
Fiduciary Funds  
Statement of Net Assets  
June 30, 2007**

	Agency Funds		Totals (Memorandum Only)
	Depository Fund	Bond Fund	
<b>Assets</b>			
Cash	\$ 66,743	\$ 38,935	\$ 105,678
Due from Community Service Fund	-	5,756	5,756
Due from Depository Fund	-	6,004	6,004
Total Assets	<u>\$ 66,743</u>	<u>\$ 50,695</u>	<u>\$ 117,438</u>
<b>Liabilities</b>			
Due to City of Inkster	\$ 13,207	\$ -	\$ 13,207
Due to State of Michigan	45,717	-	45,717
Due to Wayne County	1,815	-	1,815
Due to Bond Fund	6,004	-	6,004
Due to Bond Holders	-	50,695	50,695
Total Liabilities	<u>\$ 66,743</u>	<u>\$ 50,695</u>	<u>\$ 117,438</u>

The notes to the financial statements are an integral part of this statement.



22<sup>nd</sup> Judicial District Court  
Notes to Financial Statements  
June 30, 2007

**Note 1 – Summary of Significant Accounting Policies**

State of Michigan 22<sup>nd</sup> Judicial District Court (the “Court”) serves the city of Inkster, Michigan. The Court oversees and processes items relating to traffic violations, criminal and civil infractions, and small claims filings. It also provides probation oversight and related services.

The accounting policies of State of Michigan 22<sup>nd</sup> Judicial District Court conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Court:

**Reporting Entity**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Court’s basic financial statements include both the Court’s full accrual financial statements and modified accrual financial statements. Because of the nature of the Court’s operations, there are no differences between the methods. Nonetheless, the methods are described below for general information.

**Full Accrual Financial Statements**

The full accrual financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which are described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. There are no adjustments necessary to convert State of Michigan 22<sup>nd</sup> Judicial District Court to the full accrual basis of accounting.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Court has elected not to follow public sector standards issued after November 30, 1989 for its full accrual activities.

22<sup>nd</sup> Judicial District Court  
Notes to Financial Statements  
June 30, 2007

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Modified Accrual Financial Statements**

The Court's modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which is described below.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay finance expenditures of the fiscal period. For this purpose, the Court considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Court.

The accounts of the Court are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the financial statements in this report, into generic fund types in two broad categories as follows:

**Governmental Fund**

**Special Revenue Fund** – Special Revenue funds are used to account for proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. The Court uses the following Special Revenue Fund:

- **Community Service Fund** - which accounts for all revenues and expenditures related to convicts who are assigned to the community service program.

22<sup>nd</sup> Judicial District Court  
Notes to Financial Statements  
June 30, 2007

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Fiduciary Funds**

**Agency Funds** – Agency Funds are used to account for assets held by the Court as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Court uses the following Agency Funds:

- **Depository Fund** – This fund collects the fines and costs associated with the traffic and criminal divisions and filing fees assessed for civil and small claim filings. These collections are then remitted to the appropriate governmental agency.
- **Bond Fund** – This fund receives and holds bond monies from defendants as promise to appear on an appointed court date. After the court date, the monies are applied to fines and costs, bond costs, forfeitures, and refunds, as appropriate.

**Note 2 – Court Operations**

The costs relating to the operation of the Court (including risk management) are a budgeted item of the City of Inkster, Michigan General Fund and, accordingly, such costs are paid by the General Fund.

**Note 3 – Deposits**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

22<sup>nd</sup> Judicial District Court  
Notes to Financial Statements  
June 30, 2007

**Note 3 – Deposits (Continued)**

The Court has designated one bank for the deposit of its funds. Currently, the Court has not adopted an investment policy in accordance with Public Act 196 of 1997. The Court also had not adopted a deposit policy are in accordance with statutory authority.

**Custodial Credit Risk of Bank Deposits** - The Court's cash and investments are subject to custodial credit risk of bank deposits. Custodial credit risk is the risk that in the event of a bank failure, the Court's deposits may not be returned to it. The Court does not have a deposit policy for custodial credit risk. At year end, the Court had \$84,126 of bank deposits that were uninsured and uncollateralized. The Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

## **Supplemental Information**

**22nd District Court  
Fiduciary Funds  
Schedule of Cash Receipts and Disbursements - Agency Funds  
June 30, 2007**

	<u>Depository Fund</u>	<u>Bond Fund</u>	<u>Total</u>
<b>Cash Balance (Unaudited) - July 1, 2006</b>	\$ 51,069	\$ 34,590	\$ 85,659
<b>Receipts</b>			
Fines/fees collected and Probation monies	1,914,862	-	1,914,862
Bond receipts	<u>-</u>	<u>371,247</u>	<u>371,247</u>
Total receipts	1,914,862	371,247	2,286,109
<b>Disbursements</b>			
Distribution to other governmental units:			
City of Inkster	1,308,019	-	1,308,019
State of Michigan	564,733	-	564,733
Wayne County	20,432	-	20,432
Distribution to Bond Fund	6,004	-	6,004
Bond refunds and forfeitures	<u>-</u>	<u>366,902</u>	<u>366,902</u>
Total disbursements	<u>1,899,188</u>	<u>366,902</u>	<u>2,266,090</u>
<b>Cash Balance - June 30, 2007</b>	<u><u>\$ 66,743</u></u>	<u><u>\$ 38,935</u></u>	<u><u>\$ 105,678</u></u>

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To the Honorable Sylvia A James,  
State of Michigan 22<sup>nd</sup> Judicial District Court  
Inkster, MI

Dear Judge James:

New auditing rules effective December 31, 2006 have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we are required to provide our observations in these areas as part of our audit, we are required to tell you about items of concern and to communicate them in writing.

The new auditing standards (Statement on Auditing Standards Number 112, referred to as SAS 112) require us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a significant deficiency. The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency. For example, the requirements of SAS 112 go so far as to classify certain journal entries proposed by your auditor as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have provided our comments and observations as part of a meeting or discussion at the end of our work directly to management. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of 22nd Judicial District Court (the "Court") for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Court's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Court's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be significant and/or material deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be significant deficiencies in internal control:

- Journal entries were required during the audit to ensure that the financial statement presentation was in conformity with accounting principles generally accepted in the United States of America.
- The Governmental Accounting Standards Board has determined that a governmental entity's financial statements should include a management's discussion and analysis, which is an analysis of the governmental entity's financial performance for the year. The Court has omitted this supplemental information from their financial statements.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- Currently, the Court does not have a designated person who is knowledgeable, in the area of Generally Accepted Accounting Principles (GAAP), to review, approve, and accept responsibility for the court's financial statements and related notes.

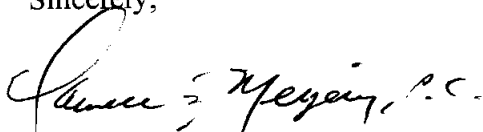
In addition to the above, we consider the following to be control deficiencies:

- Currently, the court administrator prepares the monthly bank reconciliations with no oversight or review by someone independent of that function.
- There is an un-reconciled difference between the open bond payable listing and the amount recorded on the general ledger. The Court should reconcile to the bond payable listing and the trust payable listing on a monthly basis and adjust the general ledger when necessary.
- No budget was prepared for the Community Service Fund which is a special revenue fund. According to the state budgeting act, a budget is required for all general and special revenue funds. A budget should be prepared and approved prior to July 1 of each fiscal year
- We noted various occurrences when the amounts on the check stubs were different from the amounts on the checks actually issued.
- An employee of the Community Service Fund is being treated as an outside contractor and to our knowledge wasn't issued a Form 1099 from the court. This person should be treated as an employee and payroll taxes be charged accordingly.
- No purchase order system is in place for the Community Service Fund. A purchase ordering system should be implemented for proper internal controls and approvals.
- Bonds, over two years old that were not claimed, were never escheated to the State of Michigan.
- Deposits were not being made timely.
- The Court has not adopted an investment or deposit policy. An investment and deposit policy should be adopted by the Court.

If you have any further questions regarding the above comments or would like assistance in their implementation, please feel free to contact us.

This report is intended solely for the information and use of Judge James, management, others within the organization, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Darnell and Meyering, PC

October 31, 2007